The Great
Atlantic & Pacific
Tea Company, Inc.

The Choice *for the Future*

Stores

Products

Communities

Service

Marketing

Technology

Produce & Perishables

1994 Annual Report

Comparative Highlights

(Dollars in thousands, except per share figures)	Fiscal 1994	Fiscal 1993	Fiscal 1992
	The Great Atlantic & Pacific Tea Company, Inc.		
Sales	$10,331,950	$10,384,077	$10,499,465
Income (loss) before cumulative effect of accounting changes	(166,586)	3,959	(98,501)
Net income (loss)	(171,536)	3,959	(189,501)
Income (loss) per share before cumulative effect of accounting changes	(4.36)	.10	(2.58)
Net income (loss) per share	(4.49)	.10	(4.96)
Cash dividends per share	.65	.80	.80
Expenditures for property	214,886	267,329	204,870
Working capital	97,277	79,207	56,769
Current ratio	1.09	1.07	1.05
Shareholders' equity	774,914	994,417	1,034,330
Book value per share	20.27	26.02	27.06
Number of stores at year end	1,108	1,173	1,193

Company Profile

The Great Atlantic & Pacific Tea Company, Inc., based in Montvale, New Jersey, operates conventional supermarkets and larger superstores in 22 U.S. states, the District of Columbia and Ontario, Canada, under the A&P, Waldbaum's, Food Emporium, Super Fresh, Farmer Jack, Kohl's, Dominion and Miracle Food Mart trade names. As of the fiscal year ended February 25, 1995, the Company operated a total of 1,108 stores. Through its Compass Foods Subsidiary, the Company also manufactures and distributes a line of coffees under the Eight O'Clock, Bokar and Royale labels, both for sale through its own stores and by other companies outside of A&P's trading areas.

About the Cover

This year's annual report focuses on A&P's choices for the future, with one goal in mind: to be the food retailer of choice in each neighborhood we serve. We are investing in our stores, products, and employees, refining our merchandising and redoubling our services for customers.

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Letter to Shareholders

Making *tough choices is often required to build for the future. In Canada, 1994 was a most difficult year. In working our way through the problems, however, we have systematically reduced the losses and developed a plan that will turn our Canadian operations around in 1995, headed for long-term success.*

Recovery and building for the future was our focus in fiscal 1994, and the Company made significant progress. In particular, results from U.S. operations improved again as we maintained the commitment to strengthening our position as the supermarket of choice in key geographic areas.

Building for the future also meant making some very tough choices. In Canada, 1994 was a most difficult year. As we emerged from a strike that closed 63 stores for 14 weeks we encountered an intensely competitive climate. In working our way through the problems, however, we have systematically reduced the losses and developed a plan that will turn our Canadian operations around in 1995, headed for long-term success.

For the year ended February 25, 1995, A&P reported sales of $10,331,950,000 compared to $10,384,077,000 in the prior year. The Company recorded pre-tax income of $80,509,000 from U.S. operations, up 54 percent over 1993. In Canada, excluding the effect of special charges recorded in fiscal 1994, losses from operating activities were $38,957,000.

During the third quarter of fiscal 1994, the Company recorded after-tax non-recurring charges–primarily associated with Canadian operations–of $160 million or $4.19 per share, which included the write-off of goodwill and certain long-lived assets, a provision for store closings and a net reduction in deferred tax assets.

The Company also recorded in the first quarter a cumulative net charge of $4,950,000 or $.13 per share to reflect the adoption of a new accounting standard, "Employers' Accounting for Postemployment Benefits."

In summary, for the year ended February 25, 1995, the Company reported a net loss of $171,536,000 or $4.49 per share compared with net income of $3,959,000 or $.10 per share in the prior year.

Turnaround Strategy Underway in Canada

We made very real strides toward resolving our problems in Canada in fiscal 1994. There were two principal challenges we faced in Ontario and each has been effectively addressed. First, the interruption of business at the Miracle and Ultra Food Mart stores during 1993-1994 gave our competition an opportunity to capture sales and customer loyalty – so rebuilding sales volume has been a top priority. As we restructure our operations based on more competitive labor costs, we are also developing marketing strategies that will enhance sales volume in the years ahead.

Second, Ontario is an extremely price-driven market, and the relatively soft Canadian economy has made consumers even more careful shoppers. In addition, our competitors in Canada have had a cost advantage in the form of lower labor costs for several years. To achieve a level playing field, we successfully negotiated competitive labor agreements with the unions to operate lower-cost store formats. We are currently converting some A&P

To Build *the future of A&P,*

we have a thoroughly tested team of people in place to plan and execute our long-term strategy. The group on board today is effectively leading our Company through a critical transition, and all of the people working in the A&P family of companies should be commended for their dedication.

(seated)
James Wood
Chairman of the Board and Chief Executive Officer

(left to right, standing)
Fred Corrado
Vice Chairman of the Board, Chief Financial Officer and Treasurer

Christian W.E. Haub
President and Chief Operating Officer

and Miracle Food Mart stores to these lower-cost formats which will make us more competitive overall. Most importantly, we believe our Canadian operations are on track to regain profitability in 1995 and be in position for long-term success.

Strong Performance in U.S. Stores

U.S. groups provided a strong performance in fiscal 1994 from a combination of capital investments in core market facilities and an improving economy.

Leading this perfomance were the Michigan and Atlanta groups, where acquisitions in previous years had caused a drag on overall Company performance.

Metro New York delivered solid improvement on the bottom line and confirmed its leadership position with probably the best market share improvement in the area. We opened a new Food Emporium in Manhattan and plan to convert four A&P's in New York State into Food Emporiums this year, which will improve both sales and earnings. Up to ten large stores will be opened in metropolitan New York and New Jersey in fiscal 1995, and we expect continued strong performance from our largest operating group.

Super Fresh also turned in good results, with strong sales improvement and profitability up over last year. We opened four new stores in fiscal 1994 and plan on adding five more this year in the Philadelphia/ Delaware Valley market.

Our A&P and Waldbaum's Food Mart operations in New England were fully integrated in fiscal 1994 under a single management team. Our stores in this region achieved profitability in 1994 after a loss the prior year. The Waldbaum's stores in the New York metro area are primarily located on Long Island which continues to suffer from a somewhat soft economy. Waldbaum's is, however, showing improvements in profitability and continues to initiate strong marketing programs to improve sales.

Results in the Mid-Atlantic region were very stable. Two stores that we opened in Baltimore are now among the highest volume supermarkets in our chain and have already contributed substantial profits. We are slated to open several more stores in fiscal 1995, and expect profits to continue to improve in this market.

In the Midwest, our Kohl's stores continued to produce stable but modest growth in both sales and profits. Kohl's has been a solid performer for A&P in Wisconsin, requiring little capital investment but producing good results.

The most encouraging results, however, were in the Michigan and Atlanta groups. Our stores in the Michigan area, operating principally under the Farmer Jack banner, broke through with double-digit sales improvements and a growing bottom line, which clearly points to the value of the store redevelopment program. We have spent

$123,000,000 on capital improvements in the Michigan area over the past five years, to make our facilities fully competitive. In 1995, we will further strengthen our market position by opening seven new stores and, with the continued cooperation of an excellent economy, we expect record sales and earnings.

Our Atlanta stores moved into profitability in the fourth quarter as we strengthened our operations by weeding out the smaller, unprofitable stores that came with the 1993 Big Star acquisition. This has allowed us to focus aggressive marketing programs on our 54 larger, more profitable stores which are doing well in spite of intense competition.

Like Atlanta, our operations in New Orleans, Baton Rouge and the Gulf Coast also showed improvement in fiscal 1994. This region continues to be a steady performer, providing gradual growth for the future. We expect to open two new stores in this area during 1995.

Store Development Program

Our five-year store development program, initiated last year, continued to be a critical component of A&P's strategy in fiscal 1994. We opened 16 new supermarkets during the year, remodeled or expanded 55 stores and closed another 87 stores. As of the end of fiscal 1994, we operated 1,108 stores in 22 eastern states and Canada.

A&P's emphasis is to develop our long-term profitability and increase market share. To this end, in the store development program we have focused on improving, building and expanding our facilities to bring our stores up to or above the quality of our competitors' facilities, and to close stores which are outmoded or where we have determined that market opportunity is no longer attractive. Larger store formats in the 50,000 to 65,000 square-foot range are the focus, with expanded services and convenience for customers. Over time, the stronger mix of stores will support increased sales and improved operating margins.

In fiscal 1995 we plan to open 25 new supermarkets and expand or remodel 51; in 1996 we plan to open 35 new supermarkets and approximately 30 new supermarkets per year thereafter for several years, with an attendant increase in square footage of approximately 3 percent per year.

Product Mix for the Future

Last year, A&P introduced a new private label brand, America's Choice, to consolidate our various store brands, and all U.S. stores are now able to offer America's Choice and the Master Choice premium private label to our customers. Private label products are another important part of building for the future, as they provide us with a significant point of difference and contribute to stronger operating margins. We met our goal for private label sales in fiscal 1994, which have now reached nearly 23 percent of grocery sales, up 2 percent from last year.

Similarly, we have focused on removing slow moving items from our inventory and are using card marketing programs to respond to customers' preferences. The use of increasingly sophisticated technology is beginning to accelerate and will contribute greatly to long-term profitability.

Management and Shareholders

Building for the future requires that we have a thoroughly tested team of people in place to plan and execute our long-term strategy. The group on board today is effectively leading our Company through a critical transition, and all of the people working in the A&P family of companies should be commended for their dedication.

On behalf of our management team, I would also like to thank A&P's shareholders for their support through a difficult period. While 1994 did involve making some tough choices, it also was a year of significant progress toward future growth and building shareholder value. As we move ahead, our goal is to develop an increasingly strong position in our key markets as a platform for growth and leadership in the 21st century.

James Wood

JAMES WOOD
Chairman of the Board and Chief Executive Officer

Planning *the new generation of A&P supermarkets relies on the input of our store development professionals, each of whom has an in-depth understanding of the specific needs of today's customers.*

"The store is great! The expanded departments provide the choices a busy family with four hungry teenagers needs."

Michael Aldinger
Waldbaum's
Shopper

"Love the store. In it all the time. The manager is wonderful."

Linda Moran
Food Emporium
Shopper

Stores *Development in* High Gear

The Company's new stores have specific appeal to today's customers, as exemplified by the opening of our new Food Emporium in fashionable Trump Palace in the upper East Side of Manhattan, on Third Avenue at 68th Street. The elegant, handsomely appointed supermarket features two floors of quality foods and delicacies, including such highlights as an International Bread Counter offering over 50 varieties of breads from many cultures around the world, and a fully staffed Demonstration Kitchen with professional chefs on hand to consult with customers.

As the crown jewel of the expanding Food Emporium chain, the Trump Palace store embodies the expansive design of the new generation of A&P supermarkets.

With an aggressive company-wide expansion program in place, new supermarkets are in the construction planning phases in several New Jersey locations to strengthen our base in the competitive and densely populated Northeast corridor. In all, our store development plans call for opening 25 new supermarkets and extensive remodeling or expansion of 51 others this year across our operating groups, compared with 16 supermarkets opened and 55 units remodeled or expanded in 1994. Looking ahead, we are planning 35 new stores in 1996. Capital spending for the store development program this year is budgeted at $205 million, slightly under last year's actual of $215 million.

In Canada, we are actively converting some former A&P and Miracle Food Mart stores to a new lower cost, low-price format. Fifteen of the makeovers have already been completed, and another 26 are scheduled for conversion by mid-year. Upon completion of the Canadian restructuring process, we will have a more competitive store base in Ontario, foreshadowing an improving outcome for our Canadian operations for 1995.

Development *plans call for opening 25 new supermarkets and extensive remodeling or expansion of 51 others this year across our operating groups.*

Variety is the order of the day in our expanded produce departments which feature organic fruits and vegetables as well as produce grown locally.

"The produce looks fresher, there's more to choose from and its a great place to shop."

Jackie Caruso
A&P
Shopper

"The produce is the best I've seen in my 50+ years. It's always stocked and fresh. You have my vote."

Jacqueline West
Farmer Jack
Shopper

Harvesting *The Farmers' Market* Indoors

Shopping in a farmers' market, usually associated with the out-of-doors, can now be enjoyed inside more and more of our stores. Moving the traditional vegetable and fruit stands indoors has brought a favorable response from customers who like selecting produce and perishables from expanded assortments in the comfort of an in-store environment while savoring the charm and feel of a country roadside stand.

We first introduced the concept of an enlarged consumer-friendly, farm-like produce department last Fall in our Farmer Jack supermarket in Virginia Beach, Virginia, and Super Fresh store in Belair, Maryland. The indoor farmers' market concept is currently being tested in each of our operations, and our goal is to expand the concept company-wide.

A special benefit of the indoor farmers' market is its localized appeal by featuring produce grown in the immediate area. The Farmer Jack store in Virginia Beach, for example, displayed — amid bales of hay and a farm-like atmosphere — large wooden crates of apples brought in straight from local orchards and selling at bargain prices. To stress the regional approach, we work with state agricultural departments to support local produce growers. The expanded produce departments will also offer a larger assortment of organic fruits and vegetables as well as those favored by residents of the geographic area. Our purpose is not only to place at the shoppers' fingertips the greatest possible variety of produce but also to provide the latest in consumer information materials on how to best prepare the fruits and vegetables they buy.

Our aim in 1995 is to establish A&P and its operating banners as leading merchants of quality, fresh and competitively priced produce and perishables. Our advertising is being redesigned to tell our story in such a compelling manner that customers won't be able to wait to get out to the farms—indoors.

Freshness *has always been a trademark of A&P, and we continually enhance our perishable departments with emphasis on quality and variety.*

"I think the idea of not needing coupons is great."

Barry Wieck
A&P
Shopper

"Shoppers Express saves my life. Being a handicapped person, getting out of the house is difficult. Your service makes things much easier. Thank You."

Linda Young
Food Emporium
Shopper

State-of-the-art

technology benefits our customers while enhancing the productivity and cost effectiveness of our day-to-day operations.

Technology

Adding Benefits for Our Customers

Sophisticated

technologies help our stores assure the proper variety and availability resulting in an ever-improving level of customer service.

Store shelves re-stocked almost automatically based on customer preferences...advertising mailers targeting members of our "Frequent Shopper" programs...check-out scanners that automatically discount "Bonus Special" items. Welcome to A&P's state-of-the-art technology—that wondrous unseen hand that enriches and enlivens the customer's shopping experience while enhancing the productivity and cost-effectiveness of our day-to-day operations.

Through technology, a satellite network linking 700 of our stores is ceaselessly at work identifying customers and what they purchase and tending to such tasks as verifying checks, credit and debit cards. Store management analysis of customer purchasing data will become central to planning in-store merchandising strategy.

Scanning technology will make possible continuous replenishment of store shelves by communicating re-fill orders electronically to vendors so that they can make prompt deliveries, often directly to the stores themselves. This all-important inventory process is assisted, further, by a system of sophisticated shelf-management software that pinpoints products that should go on the shelf based on customer preferences and on how rapidly they move off the shelf. The end result, of course, is to assure the proper variety and availability resulting in an ever improving level of customer service.

A company-wide centralized database on product movement, coordinated in Montvale, serves a dual purpose of updating Company merchandise category managers as to what is or is not selling and also by providing a high degree of central control over product costs and inventory investment.

Also benefiting from technology, the composition and production of newspaper ads now facilitate the decentralization of advertising so that ads can now be composed, printed and distributed locally. This has resulted in greater production efficiencies and allowed us to focus on local and regional merchandising messages.

"For me it is an enjoyable trip as all the workers are very friendly, and to me almost like family."

Elizabeth Murphy
A&P Shopper

Training is an ongoing process at A&P, starting with a thorough orientation program for new employees and continuing through executive training programs.

"I like the size of my A&P. I'm not overwhelmed. It's homey and a more personal shopping experience where the employees care about satisfied customers."

Jane Montecalvo
A&P Shopper

Service

Providing Fast, Friendly Assistance

The essence of successful retailing is to ensure the frequent return of customers to the store. How to achieve such loyal patronage can be summed up in a single succinct phrase: "Customer service." Shoppers, often strapped for time, are most effectively served in a friendly store environment by wide assortments of products available at competitive prices in easy-to-find departments, topped off by expeditious check-out arrangements, all of which contribute to an agreeable shopping experience. Pleasing the customer is not only important for its own sake, but can give our stores an important image advantage over the competition.

The need to provide the highest possible level of customer service is a constant challenge well met by management and staff at the A&P family of stores. To achieve this objective, our principal concern is to recruit, hire and train personnel who are well-suited for their jobs. Training starts with a thorough orientation program for new employees on their very first day, and continues using computer-based training through executive programs. In addition, our stores recently started special training for produce clerks, in line with the Company's new emphasis on expanded produce departments.

In another move to provide superior customer service, many stores have adopted a "Fast Lane" program, directing customers with a moderate number of purchases, consisting of 10 to 20 items, to a special "Fast Lane" check-out line where products are scanned and bagged by the cashier. The "Fast Lane" approach is in addition to the standard "Express Lane" system for customers making minimal purchases of up to 8 to 10 items.

Meanwhile, our "Frequent Shopper" programs, awarding customer discounts based on the volume of purchases, and our frequent shopper cards providing check cashing privileges, are being increasingly utilized — further convincing evidence that our customer service efforts are working. Our people in the stores can be justly proud of their achievement.

Pleasing the customer is not only important for its own sake, but can give our stores an important image advantage over the competition.

"Master Choice Chocolate Chip and Pecan Cookies are the most delicious cookies I have ever tasted!

Don't change the recipe! What a fabulous cookie, full of chips and pecans; the flavor is fantastic."

Susanne Skora
Food Emporium Shopper

Value is a key ingredient of our private label products which offer quality comparable to that of national brands but at substantially lower prices.

"Thank you, thank you! You've done it. Finally a name brand that is worth buying! I've changed to America's Choice because it works for my family. It fits my budget and our taste . . . It's nice to find a true value these days." **Kim Beck**
A&P Shopper

Products

Brand Choices Forge Ahead

A recent test conducted by *The New York Times* on packaged cereals, comparing private labels versus national brands, found that A&P's "America's Choice" entries, notably "Crispy Rice," "Frosted Flakes," and "Bran Flakes," were easily equal in taste to their national counterparts and clearly better in price. This is the latest evidence that the private label concept, pioneered by The Great Atlantic & Pacific Tea Company well over 100 years ago, continues to be one of our Company's great strengths.

Our private label "America's Choice," currently encompassing over 1,400 separate items, was introduced in 1993 in all U.S. stores of the A&P family in the biggest single product launch of its kind. In the past 18 months, we have consolidated additional existing store brands under the "America's Choice" name. As *The New York Times* report confirmed, "America's Choice" product quality is not only fully comparable with that of national brands but is available at prices substantially below those of the national brands.

Our positive experience with "America's Choice" follows an earlier success with "Master Choice," a premier store private label introduced in all of our stores some seven years earlier to compete with gourmet and other premium foods, but whose products today also sell for less than the national brands.

Along with "America's Choice," we introduced "Health Pride", covering cold remedies, pain relievers, and other health-related products. Our oldest private label is Eight O'Clock Coffee, which dates back to the Company's beginning. The brand is now supplied so widely to other food retailers outside our major markets that it really qualifies as a national brand.

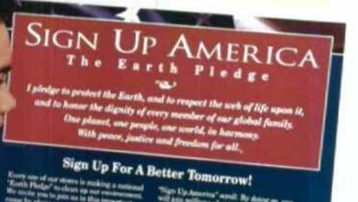
Overall, our private label business continues strong growth, currently accounting for 22 to 23 percent of grocery sales, en route to what we consider an optimum private label mix of 25 percent.

Quality *private label products have been a feature of A&P since we introduced the concept well over 100 years ago.*

Marketing

Through Diversification and Diversity

Aggressive *advertising and informational campaigns are underway to support our enhanced produce departments and private label offerings. The frog and turtle symbol identifies our* Project Earth Program *which communicates environmental responsibility.*



Satisfying the needs and wants of customers in every conceivable way is the guiding principle of the A&P family of stores. Diversification and diversity are keystones of our marketing strategy, with diversification emphasized in the great variety of product categories we offer at the same time that the stores are especially attentive to the multi-cultural composition of the markets they serve.

The interplay between these elements of diversification and diversity is particularly evident in our expanded produce departments in the stores, in keeping with our company-wide objective to become a leading marketer of produce among all food retailers. We are rapidly attaining that goal. Shoppers are not only able to fill their carts from a wide array of garden-fresh, quality fruits and vegetables but our stores make a special effort to stock specialty items aimed to the preferences and diets of demographically diverse customers in the localities. Major advertising and informational campaigns are underway to support our enhanced produce format.

This new emphasis on produce merchandising is fully in accord with the continued growth of our "America's Choice" and "Master Choice" private label products. It is these proprietary items, whether representing the fruits of the fields or our own food processing expertise, that give A&P banner stores the singular appeal that brings shoppers to our doors. To achieve their marketing goals, our stores rely also on a variety of techniques, such as a Bonus Savings Club card which qualifies customers for special discounts as well as serving as a check cashing card.

In the stores these days, customers find, amid the merchandise displays, visible signs of the Company's commitment to programs that help the community and society in general. A key activity in recent weeks has been enlisting public support to help the environment under the general theme, "Project Earth 1995." In carrying out this program, our stores are sponsoring "Sign Up America," a project in which shoppers are invited to add their names and ideas to scrolls at special displays, signifying a pledge to take personal action to improve their environment.

OPERATING RESULTS

Fiscal 1994 Compared with 1993

Sales for fiscal 1994 were $10.3 billion, a net decrease of $52 million or 0.5% when compared to fiscal 1993 sales of $10.4 billion. U.S. sales increased $75 million or 0.9% compared to fiscal 1993 despite the estimated impact of a fiscal 1993 competitors' strike in the New York metropolitan market which had a favorable effect on fiscal 1993 sales of approximately 0.3%. In the U.S., same store sales for fiscal 1994 were 0.8% ahead of fiscal 1993 and comparable store sales, which include replacement stores, were up 1.4% excluding the estimated effect of last year's competitors' strike.

Canadian sales were $127 million or 6.6% below fiscal 1993. A lower fiscal 1994 Canadian exchange rate accounted for $110 million of this year's sales decline. Canada's fiscal 1994 sales increased approximately $122 million due to a labor strike in fiscal 1993 in 63 Miracle Food Mart ("Miracle") stores which caused the stores to be closed for the last 14 weeks of the prior fiscal year. Excluding the impact of a lower Canadian exchange rate and the strike closure of 63 Miracle stores for 14 weeks of fiscal 1993, Canadian same store sales were down 7.0% mainly due to the slow sales recovery of the Miracle stores following the settlement of the labor strike on the last day of fiscal 1993.

The Company opened 16 new supermarkets and 6 new liquor stores, remodeled and enlarged 55 stores and closed 87 stores during fiscal 1994. The opening of 38 new stores since the beginning of fiscal 1993 and the acquisition of Big Star stores in fiscal 1993 added approximately 3.1% to comparable sales in fiscal 1994. The closure of 171 stores since the beginning of fiscal 1993 reduced comparative sales by approximately 3.1%. Average weekly sales per store were approximately $174,800 in fiscal 1994 versus $168,100 in fiscal 1993 for a 4.0% increase.

During fiscal 1994, in an effort to combat the competitive situation in the Metro Atlanta area, the Company closed 21 Atlanta stores and completed the launching of its frequent shoppers program which began late in fiscal 1993. As a result, sales for the Metro Atlanta area have improved, with same store sales for the remaining stores up 7.0% over the prior year. However, in Atlanta, the Company is still experiencing the influx of new competitors, and the expected continuing high level of competitive openings and pricing activity pose a threat to the sales and profitability of the Company's Atlanta operations.

Gross margin as a percent of sales for both fiscal 1994 and 1993 approximated 28.5%. The gross margin dollars decrease of $15 million is a result of a decline in the Canadian exchange rate of $29 million and a decrease in gross margin rates, principally in Canada, of $3 million partly offset by an increase in gross margin volume, principally in the U.S., of $17 million. The U.S. gross margin dollars increased $51 million, as a result of an increase in gross margin rates from 28.3% to 28.7% and the impact of the aforementioned volume increase. The Canadian gross margin dollars decreased $66 million, resulting from a decrease in gross margin rates from 29.3% to 27.7%, the impact of the exchange rate decline and a volume decline.

Store operating, general and administrative expense of $2.9 billion in fiscal 1994 declined slightly from fiscal 1993. As a percent of sales, such costs approximated 27.8% in both fiscal 1994 and 1993. U.S. expenses increased $15 million, principally related to depreciation, outside services, store pre-opening and labor costs. Canadian expenses decreased $31 million primarily due to lower store labor costs on reduced sales volume, reduced occupancy costs, a decrease in expenses related to prior year's Miracle strike and the favorable impact of the decline in the Canadian exchange rate. The Canadian decrease was partially offset by the cost of the termination/reassignment program which was $27 million in fiscal 1994, compared to an early retirement program charge of $17 million in fiscal 1993. The termination/reassignment program was implemented in conjunction with the Company's decision to convert a significant number of its Ontario-based stores to a low-cost format. In addition, the Company recorded a $17 million charge in fiscal 1994 to cover the cost of closing 13 non-Miracle stores in fiscal 1995.

Included under the Company's 1994 year-end balance sheet captions "Other accruals" and "Other non-current liabilities" are amounts totaling approximately $43 million associated with store closing liabilities, which includes the $17 million recorded in fiscal 1994 for Canada as discussed above. During fiscal 1994 approximately $15 million were charged against these reserves, of which approximately $14 million related to the realignment of store operations reserve established in fiscal 1992. See "Realignment of Store Operations" footnote for further discussion.

During the third quarter of fiscal 1994 the Company recorded a charge of $127 million representing the write-off of $50 million of goodwill and the write-down of $77 million of fixed assets relating to Miracle stores which continue to generate operating losses.

In November of 1993, the Miracle store employees went on strike for a 14-week period. Since Canadian labor laws preclude the replacement of striking workers, the strike resulted in a complete shutdown of all of the Miracle stores. The strike was resolved on February 20, 1994 and the Company paid $17 million in labor settlement costs. These stores were re-opened for business commencing February 25, 1994. Following the strike, Management instituted extensive and costly promotional campaigns designed to assist in its goal of re-establishing pre-strike sales levels. When the Miracle strike ended, Management determined that the goodwill balance associated with Miracle stores would be recoverable over its remaining life. This conclusion was based upon operating projections which comprehended (i) the historical performance and market shares of the Miracle stores in pre-strike periods, (ii) the labor savings projected to be realized as a result of the favorable terms of the settlement (principally wage and benefit concessions

and the ability to use newly hired part-time employees after a certain level of full and part-time union employment had been realized), and (iii) the regaining of pre-strike sales and operating margins which was anticipated to occur because of the implementation of extensive promotional programs in the Miracle stores.

Management continued to assess the performance of the Miracle stores during the post-strike period. The anticipated recovery of Miracle sales and operating margins was not yet realized through June 18, 1994, the end of the Company's first fiscal quarter or September 10, 1994, the end of the Company's second fiscal quarter. Through the second quarter same store sales and margins had declined significantly when compared to the prior year pre-strike levels. At that time, Management concluded that the following factors were the principal reasons why the recovery had not yet been realized: (i) increased price competition from Miracle competitors in response to the promotional activities implemented by Miracle, (ii) the inability to yet utilize part-time employees (a key element of the strike settlement which required increased sales levels to be effective) and (iii) the continuing effects of the complete shutdown during the strike. Management continued to believe that these negative trends were temporary and that more time was required to determine the effectiveness of the promotional programs and the changed competitive environment. Management continued to closely monitor the operating performance and sales levels during the third quarter.

Despite the extensive promotional programs, in the period through December 3, 1994, the operating performance of Miracle did not improve and the negative sales trends and deteriorating margin levels continued. Management believed that the negative results which occurred subsequent to the strike were no longer temporary and, accordingly, prior operating cash flow projections of Miracle were revised. These revised projections indicated that the Miracle goodwill balance would not be recovered over its remaining life and the full amount thereof should be written-off.

Further, the levels of sales and operating cash flow achieved through the first nine months of fiscal 1994, coupled with the reduced expectations of future Miracle operations, indicated that Miracle's operating results would not be sufficient to absorb the depreciation and amortization of certain of its operating fixed assets. In order to measure this impairment, the Company analyzed the projected operating performance of each store comprising the Miracle division and reflected the impairment of the fixed assets attributable to those stores which the Company believes will continue to generate an operating loss before taking into account depreciation and amortization expenses. The Company has no current plans to close Miracle stores in spite of their negative performance and believes that the total Canadian operations will be able to absorb their projected fixed costs. The Company also believes that the fixed assets related to the Canadian operations exclusive of Miracle are recoverable from operations over their remaining useful lives.

As of February 25, 1995, based on current information, the Company has no reasonable basis to believe that any existing goodwill on the books of the Company is required to be written-off. After giving effect to the Miracle goodwill write-off, there is currently no goodwill recorded on the books of the Canadian operations.

Interest expense increased in fiscal 1994 when compared to fiscal 1993 primarily due to increased U.S. borrowings of $100 million in long-term Notes issued in January, 1994 and an increase in average interest rates on short-term borrowings.

Income (loss) before taxes and cumulative effect of accounting change for fiscal 1994 was a loss of $129 million as compared to income of $7 million in fiscal 1993. The fiscal 1994 loss included Canadian charges for the write-off of goodwill and long-lived assets of $127 million, the employee termination/reassignment program of $27 million and the provision for store closings of $17 million. The fiscal 1993 income included a Canadian charge of $17 million for an employee early retirement program and an estimated $23 million cost impact of the Canadian labor strike.

Income before taxes and cumulative effect of accounting change for U.S. operations for fiscal 1994 was $81 million as compared to $52 million for fiscal 1993, or a 54% increase. Excluding the above Canadian charges, loss before taxes and cumulative effect of accounting change for Canadian operations would have been $39 million for fiscal 1994 as compared to $5 million for fiscal 1993.

During fiscal 1994, the Company recorded a valuation allowance of $119.6 million against Canadian deferred tax assets, which, based upon current available evidence, are not likely to be realized. These deferred tax assets result from tax loss carryforwards, fiscal 1994 operating losses and deductible temporary differences arising from the Canadian write-off of goodwill and long-lived assets.

The Company historically provided U.S. deferred taxes on the undistributed earnings of the Canadian operations. During fiscal 1994, the Company made an election to permanently reinvest prior years' earnings and, accordingly, reversed deferred tax liabilities of $27 million associated with the undistributed earnings of the Canadian operations. Further, this decision also resulted in a direct charge to equity of approximately $20 million to eliminate the deferred tax asset related to the Cumulative Translation Adjustment.

Effective February 27, 1994, the Company adopted Statement of Financial Accounting Standards No. 112 "Employers' Accounting for Postemployment Benefits" ("SFAS 112"). As a result, the Company recorded an after-tax charge of $5 million or $.13 per share as the cumulative effect of this change on prior years.

Net loss for fiscal 1994 was $172 million or $4.49 per share as compared to net income for fiscal 1993 of $4 million or $.10 per share. The fiscal 1994 net loss included after-tax Canadian charges for the write-off of goodwill and long-lived assets of $127 million, the employee termination/reassignment program of $27 million, the provision for store closings of $17 million, a reduction of deferred tax benefits previously recorded of $28 million and the cumulative effect of adopting SFAS 112 of $5 million, offset by the reversal of deferred tax liabilities of $27 million in the U.S. associated with the undistributed earnings of the Canadian operations. The fiscal 1993 net income included an unfavorable after-tax effect of $14 million for the Miracle strike and a $10 million charge for the Miracle employee early retirement program.

Excluding the U.S. reversal of the deferred tax liabilities associated with undistributed earnings of $27 million, net income of U.S. operations increased over 50% from $33 million or $.86 per share in fiscal 1993 to $50 million or $1.31 per share in fiscal 1994. Excluding the above Canadian charges, fiscal 1994 would have resulted in a net loss from Canadian operations of $45 million or $1.17 per share as compared to $5 million or $.13 per share for fiscal 1993.

Fiscal 1993 Compared with 1992

Sales for fiscal 1993 were $10.4 billion, a net decrease of $115 million or 1.1% when compared to fiscal 1992 sales of $10.5 billion. A lower Canadian exchange rate accounted for $119 million of the sales decline. In addition, a labor strike, causing a 14-week closure of 63 Miracle Food Mart and Ultra Mart stores in Ontario, Canada, negatively impacted sales by an estimated $166 million or 1.6%. Under Ontario law, the Company could not hire replacement workers and, therefore, the stores were closed for business. The strike was resolved and the stores were re-opened on February 25, 1994. The new Miracle Food Mart labor agreement ended a competitive cost disadvantage that the Miracle Food Mart stores have labored under since their acquisition. The Company has recently instituted promotional campaigns to assist in regaining sales. Assuming that Miracle Food Mart re-establishes its historical sales levels, the Company anticipates that the new labor agreement will have a positive impact on operating results.

After adjusting for the effects of the strike and the decline in the Canadian exchange rate, sales were ahead of the prior year by $170 million or 1.6%. Contributing to this increase were the acquisition of 48 Big Star stores in the Atlanta, Georgia area on March 29, 1993, the opening of 16 new stores and the remodeling of 111 stores during fiscal 1993. The acquisition of Big Star stores and new store openings since the beginning of fiscal 1992 added approximately $451 million or 4.3% to sales for the 1993 fiscal year. The Company, in its continuing program to eliminate obsolete, unproductive stores, closed 84 stores during fiscal 1993. The closure of stores since the beginning of fiscal 1992 reduced comparative sales by approximately $274 million or 2.6%. Same store sales were 0.1% lower or approximately $7 million. Average weekly sales per store were approximately $168,100 in fiscal 1993 versus $165,900 in fiscal 1992 for a 1.3% increase.

Same store sales for U.S. operations declined 0.5%. A competitor's 10-week strike in fiscal 1992 in the Michigan region as well as the highly competitive sales climate and overall lack of inflation had a significant negative impact on this comparison. However, U.S. same store sales have shown steady improvement which began in the third quarter of fiscal 1992, culminating with a fourth quarter of fiscal 1993 comparative increase of 3.7%. In Canada, same store sales for the year, excluding the 63 stores closed during the period affected by the strike, improved 1.7%, while same store sales for the fourth quarter were 4.5% ahead of last year.

Gross margin as a percent of sales for both fiscal 1993 and 1992 approximated 28.5%. The gross margin dollar decrease of $29 million is primarily the result of the unfavorable effect of the Canadian exchange rate of $32 million. The U.S. gross margin increased $38 million principally as a result of increased volume of $52 million. A challenge in fiscal 1993 was the progress in turning around the Big Star stores in Metro Atlanta, which were acquired in March 1993. Atlanta has become an extremely competitive situation, and the Company is experiencing significant pressure on margins while launching a strong new marketing and merchandising program. In Canada, gross margin declined $67 million, of which $52 million was caused by volume declines primarily as a result of the aforementioned labor strike and $32 million due to the aforementioned Canadian exchange rate decline. Offsetting this decline was an increase of 0.9% or $17 million in the gross margin rate.

Store operating, general and administrative expense of $2.9 billion in fiscal 1993 remained relatively unchanged from prior year, with increased store occupancy and store promotion costs offsetting decreased customer and employee accident costs. As a percent of sales, such costs were 27.8% in fiscal 1993 as compared to 27.6% in fiscal 1992. U.S. expenses increased $38 million, principally store labor related to the improved sales volume and increased store occupancy costs. Canadian expenses decreased $48 million primarily due to the decline in the Canadian exchange rate and reduced expenses from store closures during the 14-week labor strike partially offset by a $17 million charge for an early retirement program in the Miracle labor settlement.

Included under the Company's 1993 year-end balance sheet captions "Other accruals" and "Other non-current liabilities" are amounts totaling approximately $41 million associated with store closing liabilities. During fiscal 1993 approximately $35 million were charged against these reserves, which included approximately $27 million relating to the realignment of store operations reserve established in the prior year. See "Realignment of Store Operations" footnote for further discussion.

Interest expense decreased from the previous year primarily due to reduced capital lease obligations and lower interest rates on bonds and short-term borrowings partially offset by higher outstanding borrowings.

Income before income taxes and cumulative effect of accounting changes for fiscal 1993 was $7 million compared to a net loss of $172 million in fiscal 1992. The pre-tax income for fiscal 1993 reflects income from U.S. operations of $52 million offset by a loss in Canada of $45 million. The Canadian loss is primarily attributable to the aforementioned labor strike, which adversely impacted pre-tax income by an estimated $40 million. Excluding the $40 million impact from the Canadian strike in fiscal 1993, the $151 million provision for the Isosceles investment and the $43 million charge for realignment of store operations in fiscal 1992, income before income taxes and cumulative effect for fiscal 1993 increased $25 million or $.39 per share from fiscal 1992.

The income tax provision recorded in fiscal 1993 reflects the 1% increase in the corporate tax rate, partially offset by retroactive targeted jobs tax credits as prescribed in the Omnibus Budget Reconciliation Act of 1993. The tax benefit recorded in fiscal 1992 resulted primarily from the provision for the potential loss on Isosceles investment and the charge for realignment of store operations, both recorded in fiscal 1992.

LIQUIDITY AND CAPITAL RESOURCES

The Company ended the 1994 fiscal year with working capital of $97 million compared to $79 million and $57 million at February 26, 1994 and February 27, 1993, respectively. The Company had cash and short-term investments aggregating $129 million at the end of fiscal 1994 compared to $124 million and $110 million at the end of fiscal 1993 and 1992, respectively. The Company also has in excess of $200 million in various available credit facilities. See "Indebtedness" footnote for further discussion.

As a result of the charges previously discussed, certain financial covenants in the Company's U.S. and Canadian bank credit agreements were required to be amended. The amendments provide for certain financial covenants which require, among other things, minimum net worth and maximum levels of indebtedness. The Company was in compliance with all such financial covenants at February 25, 1995, the end of its fiscal year.

During the fourth quarter of fiscal 1994, the Company reduced its regular quarterly dividend to five cents per share from 20 cents per share.

During fiscal 1994, the Company funded its capital expenditures, debt repayments and cash dividends through internally generated funds combined with proceeds from bank borrowings.

U.S. bank borrowings were $168 million at February 25, 1995 as compared to $116 million at February 26, 1994. U.S. bank borrowings during fiscal 1994 were at an average interest rate of 5.4% compared to 3.4% in fiscal 1993.

Canadian bank and commercial paper borrowings were $115 million and $55 million at February 25, 1995 and February 26, 1994, respectively. Canadian bank and commercial paper borrowings during fiscal 1994 were at an average interest rate of 7.0% compared to 5.5% in fiscal 1993.

For fiscal 1994, capital expenditures totaled $215 million, which included 16 new supermarkets, 6 new liquor stores and 55 remodels and enlargements. The Company had originally planned capital expenditures of approximately $340 million including 35 new stores and approximately 120 remodels and expansions. However, certain store openings and remodels and expansions have been canceled or delayed mainly due to permit compliance with applicable regulatory requirements and, accordingly, the Company reduced its planned expenditures during the year.

For fiscal 1995, the Company has planned capital expenditures of approximately $205 million and plans to open 25 new supermarkets and 2 new liquor stores, remodel and expand 51 stores and convert the format of 41 Canadian stores. It has been the Company's experience over the past several years that it typically takes 12 to 18 months after opening for a new store to begin generating operating profits. Risks inherent in retail real estate investments are primarily associated with competitive pressures in the marketplace. From fiscal 1995 through fiscal 1999, the Company intends to improve the use of technology through scanning and other technological advances to improve customer service, store operations and merchandising and to intensify advertising and promotions. The Company currently expects to close approximately 50 to 60 stores per year over fiscal years 1995 and 1996.

The Company plans to open 35 new supermarkets in fiscal 1996 and approximately 30 new supermarkets per year thereafter for several years, with an attendant increase in square footage of approximately 3% per year, and to remodel an average of 50 stores per year. The Company's concentration will be on larger stores in the 50,000 to 65,000 square foot range. Costs of each project will vary significantly based upon size, marketing format, geographic area and development involvement required from the Company. The planned costs of these projects average $3,800,000 for a new store and $1,000,000 for a remodel or enlargement. Traditionally, the Company leases real estate and expends capital on leasehold improvements and store fixtures and fittings. Consistent with the Company's history, most new store activity will be directed into those areas where the Company achieves its best profitability. Remodeling and enlargement programs are normally undertaken based upon competitive opportunities and usually involve updating a store to a more modern and competitive format.

At fiscal year end, the Company's existing senior debt rating was BBB- with Standard & Poor's Ratings Group and Baa3 with Moody's Investors Service. On May 8, 1995 Standard & Poor's reduced the Company's rating to BB+. The rating change is not expected to have a material effect on the Company's profitability or availability of credit. A further change in either of these ratings could affect the availability and cost of financing.

The Company's current cash resources, together with cash generated from operations, will be sufficient for the Company's 1995 capital expenditure program, mandatory scheduled debt repayments and dividend payments throughout fiscal 1995.

Statements of Consolidated Operations

The Great Atlantic & Pacific Tea Company, Inc.

(Dollars in thousands, except per share figures)	Fiscal 1994	Fiscal 1993	Fiscal 1992
Sales	$10,331,950	$10,384,077	$10,499,465
Cost of merchandise sold	(7,388,495)	(7,425,578)	(7,511,910)
Gross margin	2,943,455	2,958,499	2,987,555
Store operating, general and administrative expense	(2,873,985)	(2,890,219)	(2,900,249)
Write-off of goodwill and long-lived assets	(127,000)	—	—
Realignment of store operations	—	—	(43,000)
Income (loss) from operations	(57,530)	68,280	44,306
Interest expense	(72,972)	(63,318)	(66,436)
Interest income	1,054	1,599	1,267
Provision for potential loss on Isosceles investment	—	—	(151,238)
Income (loss) before income taxes and cumulative effect of accounting changes	(129,448)	6,561	(172,101)
Benefit (provision) for income taxes	(37,138)	(2,602)	73,600
Income (loss) before cumulative effect of accounting changes	(166,586)	3,959	(98,501)
Cumulative effect on prior years of changes in accounting principles:			
Postemployment benefits	(4,950)	—	—
Income taxes	—	—	(64,500)
Postretirement benefits	—	—	(26,500)
Net income (loss)	$ (171,536)	$ 3,959	$ (189,501)
Earnings (loss) per share:			
Income (loss) before cumulative effect of accounting changes	$ (4.36)	$ .10	$ (2.58)
Cumulative effect on prior years of changes in accounting principles:			
Postemployment benefits	(.13)	—	—
Income taxes	—	—	(1.69)
Postretirement benefits	—	—	(.69)
Net income (loss) per share	$ (4.49)	$ .10	$ (4.96)

Statements of Consolidated Shareholders' Equity

The Great Atlantic & Pacific Tea Company, Inc.

(Dollars in thousands)	Fiscal 1994	Fiscal 1993	Fiscal 1992
Common stock:			
Balance at beginning of year	$ 38,229	$ 38,229	$ 38,224
Exercise of options	—	—	5
Balance at end of year	$ 38,229	$ 38,229	$ 38,229
Capital surplus:			
Balance at beginning of year	$ 453,475	$ 453,475	$ 437,972
Exercise of options and cumulative tax effect of phantom share agreement	—	—	15,503
Balance at end of year	$ 453,475	$ 453,475	$ 453,475
Cumulative translation adjustment:			
Balance at beginning of year	$ (26,103)	$ (12,809)	$ 1,395
Exchange adjustment, net of tax	(3,317)	(13,294)	(14,204)
Elimination of deferred income tax asset (see "Income Taxes" footnote)	(19,807)	—	—
Balance at end of year	$ (49,227)	$ (26,103)	$ (12,809)
Retained earnings:			
Balance at beginning of year	$ 529,179	$ 555,796	$ 775,873
Net income (loss)	(171,536)	3,959	(189,501)
Cash dividends	(24,843)	(30,576)	(30,576)
Balance at end of year	$ 332,800	$ 529,179	$ 555,796
Treasury stock, at cost:			
Balance at beginning of year	$ (363)	$ (361)	$ (358)
Purchase of Treasury stock	—	(2)	(3)
Balance at end of year	$ (363)	$ (363)	$ (361)

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

The Great Atlantic & Pacific Tea Company, Inc.

(Dollars in thousands)	February 25, 1995	February 26, 1994
ASSETS		
Current assets:		
Cash and short-term investments	$ 128,930	$ 124,236
Accounts receivable	205,619	190,954
Inventories	811,964	850,077
Prepaid expenses and other assets	47,218	65,072
Total current assets	1,193,731	1,230,339
Property:		
Land	117,508	106,904
Buildings	287,340	257,313
Equipment and leasehold improvements	2,080,103	2,185,280
Total-at cost	2,484,951	2,549,497
Less accumulated depreciation and amortization	(1,018,708)	(984,752)
	1,466,243	1,564,745
Property leased under capital leases	107,494	122,788
Property-net	1,573,737	1,687,533
Other assets	127,320	180,823
	$2,894,788	$3,098,695
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 112,821	$ 77,755
Current portion of obligations under capital leases	14,492	16,097
Accounts payable	447,081	458,875
Book overdrafts	157,521	196,818
Accrued salaries, wages and benefits	158,109	173,366
Accrued taxes	51,345	35,879
Other accruals	155,085	192,342
Total current liabilities	1,096,454	1,151,132
Long-term debt	612,473	544,399
Obligations under capital leases	146,400	162,866
Deferred income taxes	118,579	100,405
Other non-current liabilities	145,968	145,476
Shareholders' equity:		
Preferred stock-no par value; authorized-3,000,000 shares; issued-none		
Common stock-$1 par value; authorized-80,000,000 shares; issued 38,229,490 shares	38,229	38,229
Capital surplus	453,475	453,475
Cumulative translation adjustment	(49,227)	(26,103)
Retained earnings	332,800	529,179
Treasury stock, at cost, 9,157 shares	(363)	(363)
Total shareholders' equity	774,914	994,417
	$2,894,788	$3,098,695

See Notes to Consolidated Financial Statements.

Statements of Consolidated Cash Flows

The Great Atlantic & Pacific Tea Company, Inc.

(Dollars in thousands)	Fiscal 1994	Fiscal 1993	Fiscal 1992
Cash Flows From Operating Activities:			
Net income (loss)	$(171,536)	$ 3,959	$(189,501)
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Write-off of goodwill and long-lived assets	127,000	—	—
Provision for potential loss on Isosceles investment	—	—	151,238
Realignment of store operations	—	—	43,000
Cumulative effect on prior years of changes in accounting principles:			
Postemployment benefits	4,950	—	—
Income taxes	—	—	64,500
Postretirement benefits	—	—	26,500
Depreciation and amortization	235,444	235,910	228,976
Deferred income tax provision (benefit) on income (loss) before cumulative effect of accounting changes	20,836	(19,568)	(87,800)
(Gain) loss on disposal of owned property	(816)	1,032	(2,472)
(Increase) decrease in receivables	(15,197)	1,936	(18,538)
Decrease in inventories	34,048	12,928	45,367
(Increase) decrease in other current assets	(1,341)	(7,981)	1,906
Decrease in accounts payable	(9,996)	(1,557)	(50,761)
Increase (decrease) in accrued expenses	1,295	46,292	(10,081)
Increase (decrease) in store closing reserves	2,012	(34,522)	(7,944)
Increase (decrease) in other accruals and other liabilities	(43,603)	(19,438)	23,302
Other operating activities, net	(1,756)	(5,385)	(6,358)
Net cash provided by operating activities	181,340	213,606	211,334
Cash Flows From Investing Activities:			
Expenditures for property	(214,886)	(267,329)	(204,870)
Proceeds from disposal of property	12,113	19,464	12,573
Acquisition of business, net of cash acquired	—	(42,948)	—
Net cash used in investing activities	(202,773)	(290,813)	(192,297)
Cash Flows From Financing Activities:			
Proceeds from debt	116,887	218,524	8,839
Payment of debt	(11,437)	(114,826)	(32,788)
Principal payments on capital leases	(15,923)	(18,876)	(18,565)
Increase (decrease) in book overdrafts	(37,720)	39,192	29,767
Cash dividends	(24,843)	(30,576)	(30,576)
Proceeds from stock options exercised	—	—	27
Purchase of Treasury stock	—	(2)	(3)
Net cash provided by (used in) financing activities	26,964	93,436	(43,299)
Effect of exchange rate changes on cash and short-term investments	(837)	(2,113)	(1,784)
Net Increase (Decrease) in Cash and Short-term Investments	4,694	14,116	(26,046)
Cash and Short-term Investments at Beginning of Year	124,236	110,120	136,166
Cash and Short-term Investments at End of Year	$128,930	$124,236	$110,120

See Notes to Consolidated Financial Statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year

The Company's fiscal year ends on the last Saturday in February. Fiscal 1994 ended February 25, 1995, fiscal 1993 ended February 26, 1994 and fiscal 1992 ended February 27, 1993. Fiscal 1994, fiscal 1993 and fiscal 1992 were each comprised of 52 weeks.

Common Stock

The principal shareholder of the Company, Tengelmann Warenhandelsgesellschaft, owned 54.0% of the Company's common stock as of February 25, 1995.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries.

Cash and Short-term Investments

Short-term investments that are highly liquid with an original maturity of three months or less are included in cash and short-term investments and are deemed to be cash equivalents.

Inventories

Store inventories are valued principally at the lower of cost or market with cost determined under the retail method. Other inventories are valued primarily at the lower of cost or market with cost determined on a first-in, first-out basis. Inventories of certain acquired companies are valued using the last-in, first-out method, which was their practice prior to acquisition.

Properties

Depreciation and amortization are provided on the straight-line basis over the estimated useful lives of the assets. Buildings are depreciated based on lives varying from twenty to fifty years and equipment based on lives varying from three to ten years. Equipment and real property leased under capital leases are amortized over the lives of the respective leases or over their economic useful lives, whichever is less. Properties designated for sale are classified as current assets.

Pre-opening Costs

The costs of opening new stores are expensed in the year incurred.

Earnings (Loss) Per Share

Earnings (loss) per share is based on the weighted average number of common shares outstanding during the fiscal year which was 38,220,000 in both fiscal 1994 and 1993 and 38,219,000 in fiscal 1992. Stock options outstanding had no material effect on the computation of earnings (loss) per share and, accordingly, were excluded from the calculation.

Excess of Cost over Net Assets Acquired

The excess of cost over fair value of net assets acquired is amortized on a straight-line basis over forty years. At each balance sheet date, management reassesses the appropriateness of the goodwill balance based on forecasts of cash flows from operating results on an undiscounted basis. If the results of such comparison indicate that an impairment may be more likely than not, the Company will recognize a charge to operations at that time based upon the difference between the present value of the expected cash flows from future operating results (utilizing a discount rate equal to the Company's average cost of funds at that time) and the balance sheet value. The recoverability of goodwill is at risk to the extent the Company is unable to achieve its forecast assumptions regarding cash flows from operating results. At February 25, 1995, the Company estimates that the cash flows projected to be generated by the respective businesses on an undiscounted basis should be sufficient to recover the existing goodwill balance over its remaining life (see "Write-off of Goodwill and Long-Lived Assets" footnote).

Income Taxes

The Company provides deferred income taxes on temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws.

Current Liabilities

Under the Company's cash management system, checks issued but not presented to banks frequently result in overdraft balances for accounting purposes and are classified as "Book overdrafts" in the balance sheet.

The Company accrues for vested and non-vested vacation pay. Liabilities for compensated absences of $81 million and $84 million at February 25, 1995 and February 26, 1994, respectively, are included in the balance sheet caption "Accrued salaries, wages and benefits."

Reclassifications

Certain reclassifications have been made to the prior years' financial statements in order to conform to the current year presentation.

INVENTORY

Approximately 26% of the Company's inventories are valued using the last-in, first-out ("LIFO") method. Such inventories would have been $15 million and $17 million higher at February 25, 1995 and February 26, 1994, respectively, if the retail and first-in, first-out methods were used. During fiscal 1994 and 1993, the Company recorded a LIFO credit of approximately $2 million and $3 million, respectively. During fiscal 1992, the Company recorded a LIFO charge of approximately $1 million. Liquidation of LIFO layers in the periods reported did not have a significant effect on the results of operations.

WRITE-OFF OF GOODWILL AND LONG-LIVED ASSETS

During the third quarter of fiscal 1994, the Company recorded a non-cash charge of $127 million reflecting $50 million for the write-off of goodwill related to the acquisition of Miracle Food Mart

("Miracle") stores in Canada and $77 million for the write-down of certain Miracle fixed assets. Miracle experienced a work stoppage for a 14-week period at the end of fiscal 1993. Under Canadian labor laws the stores were closed during this time period. The labor dispute was settled and the stores re-opened for business on February 25, 1994. The Company anticipated that the new labor agreement would have a positive impact on operating results assuming historical sales levels could be attained. Through the first half of fiscal 1994, the Company expended significant promotional efforts in order to regain its pre-strike sales levels. The sales performance through the first half of fiscal 1994 was disappointing and the Company continued to monitor Miracle's performance through the third quarter. Sales performance in the third quarter of fiscal 1994 continued to be negative when compared to pre-strike sales levels. The Company, no longer believing that Miracle's negative operating performance was temporary, revised its future expected cash flow projections. These revised projections indicated that the goodwill balance would not be recoverable over its remaining life. Further, these projections indicated that the operating results of Miracle would not be sufficient to absorb the depreciation and amortization of certain of its operating fixed assets. Accordingly, Miracle's goodwill balance was written-off and fixed assets relating to Miracle stores which are expected to continue to generate operating losses were written-down as of the end of the third quarter of fiscal 1994.

INDEBTEDNESS

Debt consists of:

(Dollars in thousands)	February 25, 1995	February 26, 1994
9 1/8% Notes, due January 15, 1998	$ 200,000	$200,000
7.70% Senior Notes, due January 15, 2004	200,000	200,000
Mortgages and Other Notes, due 1995 through 2014 (average interest rates at year end of 9.7% and 9.1%, respectively)	42,249	52,032
U.S. Bank Borrowings at 6.6% and 3.6%, respectively	168,000	116,000
Canadian Commercial Paper at 7.3% and 4.0%, respectively	21,085	32,421
Canadian Bank Borrowings at 8.7% and 4.8%, respectively	94,373	22,260
Less unamortized discount on 9⅛% Notes	(413)	(559)
	725,294	622,154
Less current portion	(112,821)	(77,755)
Long-term debt	$ 612,473	$544,399

As of February 25, 1995, the Company has outstanding a total of $400 million of unsecured, non-callable public debt securities in the form of $200 million 9⅛% Notes due 1998 and $200 million 7.70% Notes due 2004.

The Company has a $250 million U.S. credit agreement with banks enabling it to borrow funds on a revolving basis sufficient to refinance any outstanding short-term borrowings. In addition, the U.S. has lines of credit with banks in excess of $95 million. Borrowings under these U.S. credit agreements were $168 million and $116 million at February 25, 1995 and February 26, 1994, respectively. The Company pays a facility fee ranging from 3/16% to 1/2% per annum on the Company's revolving credit facility. The Company's Canadian subsidiary has a C$200 million Loan Facility and a C$100 million commercial paper program. Borrowings under these programs cannot exceed C$200 million. Canadian borrowings under these programs were C$161 million and C$74 million at February 25, 1995 and February 26, 1994, respectively.

The Company's loan agreements contain certain financial covenants including the maintenance of minimum levels of shareholders' equity and limitations on the incurrence of additional indebtedness and lease commitments. The Company was in compliance with such covenants as of February 25, 1995, as amended.

The net book value of real estate pledged as collateral for all mortgage loans amounted to approximately $43 million as of February 25, 1995.

Combined U.S. bank and Canadian bank and commercial paper borrowings of $173 million as of February 25, 1995 are classified as non-current as the Company has the ability and intent to refinance these borrowings on a long-term basis.

Maturities for the next five fiscal years are: 1995-$113 million; 1996-$83 million; 1997-$275 million; 1998-$34 million; 1999-$3 million. Interest payments on indebtedness were approximately $52 million for fiscal 1994, $41 million for fiscal 1993 and $39 million for fiscal 1992.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of the Company's financial instruments are as follows:

(Dollars in thousands)	February 25, 1995		February 26, 1994	
Liabilities:	Carrying Amount	Fair Value	Carrying Amount	Fair Value
9 1/8 % Notes, due January 15, 1998	$199,587	$202,000	$199,441	$214,000
7.70% Senior Notes, due January 15, 2004	$200,000	$174,000	$200,000	$194,000
Total Indebtedness	$725,294	$701,707	$622,154	$630,713

Fair value for the public debt securities is based on quoted market prices. With respect to all other indebtedness, Company management has evaluated such debt instruments and has determined, based on interest rates and terms, that the fair value of such indebtedness approximates carrying value at February 25, 1995 and February 26, 1994. As of February 25, 1995 and February 26, 1994, the carrying values of cash and short-term investments, accounts receivable and accounts payable approximated fair values due to the short-term maturities of these instruments.

As of the end of fiscal 1994, the Company holds equity securities of both common and cumulative preferred stock in Isosceles PLC which were written-off in their entirety during fiscal 1992 (see "Investment in Isosceles" footnote). There are no quoted market prices for these securities and it is not practicable, considering the materiality of these securities to the Company, to obtain an estimate of their fair value. The Company believes that the fair value for these securities is zero based upon Isosceles' current and prior year results.

LEASE OBLIGATIONS

The Company operates primarily in leased facilities. Lease terms generally range up to twenty-five years for store leases and thirty years for other leased facilities, with options to renew for additional periods. The majority of the leases contain escalation clauses relating to real estate tax increases and certain store leases provide for increases in rentals when sales exceed specified levels. In addition, the Company leases some store equipment and trucks.

The consolidated balance sheets include the following:

(Dollars in thousands)	February 25, 1995	February 26, 1994
Real property leased under capital leases	$238,906	$256,156
Equipment leased under capital leases	663	3,361
	239,569	259,517
Accumulated amortization	(132,075)	(136,729)
	$107,494	$122,788

The Company did not enter into any new capital leases during fiscal 1994 and 1992. The Company entered into $2 million of new capital leases during fiscal 1993. Interest paid as part of capital lease obligations was approximately $20, $22 and $24 million in fiscal 1994, 1993 and 1992, respectively.

Rent expense for operating leases consists of:

(Dollars in thousands)	Fiscal 1994	Fiscal 1993	Fiscal 1992
Minimum rentals	$154,488	$151,289	$151,150
Contingent rentals	6,619	6,883	7,957
	$161,107	$158,172	$159,107

Future minimum annual lease payments for capital leases and noncancelable operating leases in effect at February 25, 1995 are shown in the table below. All amounts are exclusive of lease obligations and sublease rentals applicable to facilities for which reserves have previously been established.

(Dollars in thousands)	Capital Leases		
Fiscal	Equipment	Real Property	Operating Leases
1995	$ 15	$ 32,823	$ 137,900
1996	—	30,506	130,607
1997	—	28,539	121,690
1998	—	26,908	116,011
1999	—	24,762	110,501
2000 and thereafter	—	158,755	1,055,910
	15	302,293	$1,672,619
Less executory costs	—	(2,869)	
Net minimum rentals	15	299,424	
Less interest portion	—	(138,547)	
Present value of net minimum rentals	$ 15	$160,877	

INCOME TAXES

The components of income (loss) before income taxes and cumulative effect of accounting changes are as follows:

(Dollars in thousands)	Fiscal 1994	Fiscal 1993	Fiscal 1992
United States	$ 80,509	$ 52,280	$(133,378)
Canadian	(209,957)	(45,719)	(38,723)
Total	$(129,448)	$ 6,561	$(172,101)

The provision (benefit) for income taxes before cumulative effect of accounting changes consists of the following:

(Dollars in thousands)	Fiscal 1994	Fiscal 1993	Fiscal 1992
Current:			
Federal	$ 8,577	$ 13,500	$21,800
Canadian	2,687	5,744	(12,800)
State and local	5,038	2,926	5,200
	16,302	22,170	14,200
Deferred:			
Federal	(9,922)	2,723	(62,500)
Canadian	(88,948)	(22,486)	(5,400)
State and local	114	195	(19,900)
Canadian valuation allowance	119,592	—	—
	20,836	(19,568)	(87,800)
	$ 37,138	$ 2,602	$(73,600)

The deferred income tax provision results primarily from the impact of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws, Canadian net operating tax loss carryforwards and the Canadian valuation allowance.

The Canadian deferred income tax benefit for fiscal 1994 relates primarily to net operating tax loss carryforwards, the write-off of goodwill and certain long-lived assets and other temporary differences associated with the Company's operations in Canada.

Management has assessed the likelihood of realizing the Canadian net deferred income tax assets and, based on all available evidence, expects it is not likely that such assets will be realized. Accordingly, during the third quarter of fiscal 1994, the Company recorded a valuation allowance to reserve for previously recognized deferred tax benefits and has continued through the remainder of fiscal 1994 to provide a valuation allowance against its deferred income tax benefits. As such, at February 25, 1995, a valuation allowance for the entire amount of net deferred income tax assets related to Canada has been established. The valuation allowance will be adjusted when and if, in the opinion of Management, significant positive evidence exists which indicates that it is more likely than not that the Company will be able to realize the Canadian deferred tax assets.

The Company historically provided U.S. deferred taxes on the undistributed earnings of the Canadian operations. During fiscal 1994, the Company made an election to permanently reinvest prior years' earnings and, accordingly, reversed deferred tax liabilities of $27 million associated with the undistributed earnings of the Canadian operations. Further, in conjunction with this decision, the Company recorded a direct charge to equity of approximately $20 million to eliminate the deferred tax asset related to the Cumulative Translation Adjustment.

The Company's Canadian net operating tax loss carryforwards of approximately $178 million expire between fiscal 1997 and 2001.

The income tax provision recorded in fiscal 1993 reflects the increase in the corporate tax rate of 1%, partially offset by retroactive targeted jobs tax credits as prescribed by the Omnibus Budget Reconciliation Act of 1993. The income tax benefit recorded in fiscal 1992 resulted primarily from the provision for the potential loss on the Company's total investment in Isosceles and the charge for realignment of store operations.

The provision for income taxes includes amortization of investment tax credits of approximately $1 million in fiscal 1992.

A reconciliation of income taxes at the 35% federal statutory income tax rate for 1994 and 1993, and 34% for 1992 to income taxes as reported is as follows:

(Dollars in thousands)	Fiscal 1994	Fiscal 1993	Fiscal 1992
Income taxes computed at federal statutory income tax rate	$(45,307)	$ 2,296	$(58,514)
Effect of 1% statutory rate change	—	2,519	—
Targeted jobs tax credits	(1,300)	(1,656)	—
State and local income taxes, net of federal tax benefit	3,348	2,031	(9,729)
Tax rate differential relating to Canadian operations	(12,775)	(3,261)	(4,969)
Canadian valuation allowance	119,592	—	—
Goodwill	580	673	612
Investment tax credits	—	—	(1,000)
Reduction of tax liabilities associated with undistributed earnings	(27,000)	—	—
Income taxes, as reported	$ 37,138	$ 2,602	$(73,600)

As of the beginning of fiscal 1992, the Company adopted Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" ("SFAS 109"). As a result, the Company reflected the cumulative effect on prior years of the change in accounting principle by recording a charge of $64.5 million ($1.69 per share). In conjunction with the adoption of SFAS 109, the Company remeasured prior acquisitions which resulted in an increase in liabilities assumed of $22 million. In addition, the Company recorded a $15.5 million tax benefit resulting from payments from the Company's principal shareholder to the Company's Chief Executive Officer under a phantom stock agreement. This amount has been recorded as a credit to the Capital Surplus of the Company in fiscal 1992.

Income tax payments for fiscal 1994, 1993 and 1992 were approximately $12, $15 and $34 million, respectively.

The components of net deferred tax assets (liabilities) are as follows:

(Dollars in thousands)	February 25, 1995	February 26, 1994
Current assets:		
Insurance reserves	$ 12,905	$ 22,536
Other reserves	11,240	16,969
Lease obligations	2,090	2,210
Pension obligations	9,331	8,299
Miscellaneous	5,033	4,791
	40,599	54,805
Current liabilities:		
Inventories	(15,382)	(15,802)
Miscellaneous	(2,165)	(1,799)
	(17,547)	(17,601)
Valuation allowance	(4,706)	—
Deferred income taxes included in prepaid expenses and other assets	$ 18,346	$ 37,204
Non-current assets:		
Alternative minimum tax credits	$ 23,500	$ 39,600
Isosceles investment	42,617	42,617
Fixed assets	14,504	—
Other reserves	14,038	20,087
Lease obligations	21,228	22,280
Canadian loss carryforwards	78,709	43,075
Insurance reserves	8,400	9,446
Accrued postretirement and postemployment benefits	27,798	17,884
Cumulative translation adjustment	—	19,189
Miscellaneous	17,365	8,591
	248,159	222,769
Non-current liabilities:		
Fixed assets	(204,674)	(247,039)
Pension obligations	(17,552)	(17,530)
Undistributed earnings of Canadian subsidiaries	—	(24,922)
Miscellaneous	(29,626)	(33,683)
	(251,852)	(323,174)
Valuation allowance	(114,886)	—
Deferred income taxes	$(118,579)	$(100,405)

RETIREMENT PLANS AND BENEFITS

Defined Benefit Plans

The Company provides retirement benefits to certain non-union and some union employees under various defined benefit plans. The Company's defined benefit pension plans are non-contributory and benefits under these plans are generally determined based upon years of service and, for salaried employees, compensation. The Company funds these plans in amounts consistent with the statutory funding requirements.

The components of net pension cost (income) are as follows:

(Dollars in thousands)	Fiscal 1994	Fiscal 1993	Fiscal 1992
Service cost	$ 11,182	$ 10,665	$ 10,630
Interest cost	22,858	22,997	21,842
Actual return on plan assets	(17,448)	(61,730)	(16,685)
Net amortization and deferral	(9,246)	35,816	(9,621)
Net pension cost	$ 7,346	$ 7,748	$ 6,166

The Company's U.S. defined benefit pension plans are accounted for on a calendar year basis while the Company's Canadian defined benefit pension plans are accounted for on a fiscal year basis. The majority of plan assets is invested in listed stocks and bonds. The funded status of the plans is as follows:

	1994		1993	
(Dollars in thousands)	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Accumulated benefit obligation:				
Vested	$212,257	$ 41,243	$244,706	$36,351
Nonvested	3,218	1,119	3,360	1,335
	$215,475	$ 42,362	$248,066	$37,686
Projected benefit obligation	$224,720	$ 44,012	$264,500	$40,713
Plan assets at fair value	270,939	25,368	312,900	17,679
Excess (deficiency) of assets over projected benefit obligation	46,219	(18,644)	48,400	(23,034)
Unrecognized net transition (asset) obligation	(7,248)	218	(10,974)	1,089
Unrecognized net (gain) loss from experience differences	(9,232)	(252)	(8,787)	2,590
Unrecognized prior service cost	3,609	3,808	4,247	4,500
Additional minimum liability	—	(2,522)	—	(5,184)
Prepaid pension asset (pension liability)	$ 33,348	$(17,392)	$ 32,886	$(20,039)

During the year ended February 25, 1995, the Company's Canadian subsidiary and the United Food & Commercial Workers International Union, Locals 175 and 633 entered into an agreement which will result in the amalgamation of three of the Company's Canadian defined benefit pension plans with the Canadian Commercial Workers Industry Pension Plan ("CCWIPP"), effective July 1, 1994, subject to the approval of the CCWIPP trustees and the appropriate regulatory bodies. Under the terms of this agreement, CCWIPP will assume the assets and defined benefit liabilities of the three pension plans and the Company will be required to make defined contributions to CCWIPP based upon hours worked by its employees who are members of CCWIPP. The Company expects that they will receive such approval prior to the end of fiscal 1995. At February 25, 1995, prepaid pension assets of approximately $10 million related to the aforementioned plans are included in the above table.

Actuarial assumptions used to determine year-end plan status are as follows:

	1994		1993	
	U.S.	Canada	U.S.	Canada
Discount rate	8.50%	9.50%	7.50%	8.25%
Weighted average rate of compensation increase	5.50%	4.00%	4.50%	5.00%
Expected long-term rate of return on plan assets	8.50%	9.25%	9.00%	9.25%

The impact of the changes in the actuarial assumptions has been reflected in the funded status of the pension plans and the Company believes that such changes will not have a material effect on net pension cost for fiscal 1995.

Defined Contribution Plans

The Company maintains a defined contribution retirement plan to which the Company contributes 4% of eligible participants' salaries and a savings plan to which eligible participants may contribute a percentage of eligible salary. The Company contributes to the savings plan based on specified percentages of the participants' eligible contributions. Participants become fully vested in the Company's contributions after 5 years of service. The Company's contributions charged to operations for both plans were approximately $11 million in both fiscal 1994 and 1993 and $10 million in fiscal 1992.

The Company participates in various multi-employer union pension plans which are administered jointly by management and union representatives and which sponsor most full-time and certain part-time union employees who are not covered by the Company's other pension plans. The pension expense for these plans approximated $39, $38 and $39 million in fiscal 1994, 1993 and 1992, respectively. The Company could, under certain circumstances, be liable for unfunded vested benefits or other expenses of jointly administered union/management plans. At this time, the Company has not established any liabilities because such withdrawal from these plans is not probable.

Postretirement Benefits

The Company and its wholly-owned subsidiaries provide postretirement health care and life benefits to certain union and non-union employees. As of the beginning of fiscal 1992, the Company

adopted Statement of Financial Accounting Standards No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("SFAS 106"). In accordance with SFAS 106, the Company is required to recognize the cost of providing postretirement benefits during employees' active service period. The Company's previous accounting policy had been to expense such benefit costs as incurred. As a result of adopting SFAS 106, the Company recorded a cumulative charge of $26.5 million ($.69 per share) as the after-tax effect (federal and state) of recording the transition obligation as of the beginning of fiscal 1992.

The components of net postretirement benefits cost are as follows:

(Dollars in millions)	Fiscal 1994	Fiscal 1993	Fiscal 1992
Service cost	$ 0.6	$ 0.6	$0.6
Interest cost	3.6	3.9	3.7
Net postretirement benefits cost	$ 4.2	$ 4.5	$4.3

The unfunded status of the plans is as follows:

(Dollars in millions)	Fiscal 1994	Fiscal 1993
Unfunded accumulated benefit obligation:		
Retirees	$24.0	$ 28.2
Fully eligible active plan participants	3.6	4.9
Other active plan participants	8.2	13.8
	35.8	46.9
Unrecognized net gain from experience differences	15.0	2.0
Accrued postretirement costs	$50.8	$ 48.9
Assumed discount rate	8.5%	7.5%

The assumed rate of future increase in health care benefit cost was 12.25% in fiscal 1994 and is expected to decline to 4.75% by the year 2024 and remain at that level thereafter. The effect of a one-percentage-point increase in the assumed health care cost trend rate for each future year on the net postretirement health care cost and the accumulated postretirement benefit obligation would be $0.3 million and $2.9 million, respectively.

Postemployment Benefits

Effective February 27, 1994, the Company adopted Statement of Financial Accounting Standards No. 112 "Employers' Accounting for Postemployment Benefits" ("SFAS 112"). SFAS 112 requires the accrual of costs for preretirement postemployment benefits provided to former or inactive employees and the recognition of an obligation for these benefits. The Company's previous accounting policy had been to accrue for workers' compensation and a principal portion of long-term disability benefits and to expense other postemployment benefits, such as short-term disability, as incurred. As a result of adopting SFAS 112, the Company recorded a charge of $5.0 million, net of applicable income taxes of $3.9 million, as the cumulative effect of recording the obligation as of the beginning of the year. The effect of adopting SFAS 112 had an immaterial effect on the financial results before the cumulative effect of accounting change for fiscal 1994.

STOCK OPTIONS

On March 18, 1994, the Board of Directors approved the 1994 Stock Option Plan for its officers and key employees. The 1994 Stock Option Plan provides for the granting of 1,500,000 shares as either options or Stock Appreciation Rights ("SAR's"). Options and SAR's issued under this plan are granted at the fair market value of the Company's common stock at the date of grant. SAR's allow the optionee, in lieu of purchasing stock, to receive cash in an amount equal to the excess of the fair market value of common stock on the date of exercise over the option price. A total of 50,000 SAR's was granted in fiscal 1994.

On March 18, 1994, the Board of Directors approved a 1994 Stock Option Plan for Non-Employee Directors. This plan provides for the granting of 100,000 stock options, which are granted at the fair market value of the Company's common stock at the date of grant. A total of 19,800 options was granted in fiscal 1994.

The Company had a 1984 Stock Option Plan for its officers and key employees which expired on February 1, 1994. The 1984 Stock Option Plan, which provided for the granting of 1,500,000 shares was amended as of July 10, 1990 to increase by 1,500,000 the number of options available for grant as either options or SAR's. Each option was available for grant at the fair market value of the Company's common stock on the date the option was granted. A summary of option transactions is as follows:

Officers and Key Employees	Shares	Price Range Per Share
Outstanding February 29, 1992	1,190,875	$ 5.50 -$65.13
Granted	15,000	23.00 - 24.38
Cancelled or expired	(2,500)	39.75
Options exercised	(5,000)	5.50
SAR's exercised	(4,250)	21.50
Outstanding February 27, 1993	1,194,125	$21.50 -$65.13
Granted	1,270,000	23.38 - 26.00
Cancelled or expired	(35,000)	23.38 - 52.38
Outstanding February 26, 1994	2,429,125	$21.50 -$65.13
Granted	50,000	23.50
Cancelled or expired	(26,500)	39.75 - 59.00
SAR's exercised	(2,500)	23.38
Outstanding February 25, 1995	2,450,125	$21.50 - $65.13
Exercisable at:		
February 26, 1994	1,252,125	$21.50 - $65.13
February 25, 1995	1,586,875	$21.50 - $65.13
Non-Employee Directors		
Outstanding February 26, 1994	—	—
Granted	19,800	$21.50 - $26.50
Outstanding February 25, 1995, none of which are exercisable	19,800	$21.50 - $26.50

LITIGATION

The Company is involved in various claims, administrative agency proceedings and lawsuits arising out of the normal conduct of its business. Although the ultimate outcome of these legal proceedings cannot be predicted with certainty, the management of the Company believes that the resulting liability, if any, will not have a material effect upon the Company's consolidated financial statements or liquidity.

OPERATIONS IN GEOGRAPHIC AREAS

The Company has been engaged in the retail food business since 1859 and currently does business principally under the names A&P, Waldbaum's, Food Emporium, Super Fresh, Farmer Jack, Kohl's, Dominion and Miracle Food Mart. Sales in the table below reflect sales to unaffiliated customers in the United States and Canada.

(Dollars in thousands)	Fiscal 1994	Fiscal 1993	Fiscal 1992
Sales:			
United States	$ 8,540,871	$ 8,466,338	$ 8,286,270
Foreign	1,791,079	1,917,739	2,213,195
Total	$10,331,950	$10,384,077	$10,499,465
Income (Loss) From Operations:			
United States	$ 137,804	$ 101,305	$ 68,987
Foreign	(195,334)	(33,025)	(24,681)
Total	$ (57,530)	$ 68,280	$ 44,306
Assets:			
United States	$ 2,482,108	$ 2,528,239	$ 2,425,291
Foreign	412,680	570,456	665,639
Total	$ 2,894,788	$ 3,098,695	$ 3,090,930

ACQUISITIONS

In March 1993, the Company acquired certain assets, including inventory, of 48 Big Star stores in the Atlanta, Georgia area for approximately $43 million. As of the acquisition date, the fair value of assets recorded was $72 million and liabilities assumed were $48 million. The acquisition has been accounted for as a purchase and, accordingly, the excess of cost over the fair market value of net assets acquired of approximately $19 million has been included in the balance sheet caption "Other assets."

REALIGNMENT OF STORE OPERATIONS

During fiscal 1992, the Company reassessed store operations in its markets and closed certain stores and identified certain other stores to be closed in the future as part of its realignment of certain operating divisions in the United States and Canada. This program, which included 72 stores, is expected to be substantially completed by the end of fiscal 1995. The Company recorded a charge of $43 million in fiscal 1992 to cover the cost of these closings, including future rent, property taxes, common area maintenance costs and equipment disposition costs. The Company anticipates that these costs, which only include costs subsequent to the actual store closing, will be paid principally over four years. During fiscal 1994 and fiscal 1993, store closing costs of approximately $14 million and $27 million, respectively, were charged to this reserve, which did not include the costs associated with closing older and outmoded stores which close in the ordinary course of business and tend to be insignificant as these stores are generally near the end of their lease term and have low net asset values. The Company believes that, within a three to five year period from the date of realignment, this program will have a positive effect on future operations and cash flows. In the third quarter of fiscal 1994, the Company recorded a charge in Store operating, general and administrative expense of $17 million to cover the cost of closing 13 non-Miracle stores in Canada during fiscal 1995.

INVESTMENT IN ISOSCELES

During fiscal 1992, the Company recorded a non-recurring pre-tax charge of $151.2 million for the potential loss on its investment in Isosceles PLC ("Isosceles"). The Company's decision to record a provision for the potential loss of its investment in Isosceles occurred in July 1992. The Company monitored its investment in Isosceles through the analysis of Isosceles' prepared business plans and cash flow projections. In September of 1990 the Company chose not to participate in a recapitalization of Isosceles resulting in a significant decline in its percentage ownership position. Late in 1991, new management was appointed at Isosceles and in June 1992 the Company was informed by new management that a significantly different operating strategy would be implemented. The Company was further informed by new Isosceles management that this new strategy would result in substantially reduced operating results and that Isosceles shareholders had suffered a significant diminution in the value of their holdings. Shortly thereafter, the Company concluded that the recovery of any of its investment in Isosceles had become remote and that it was appropriate to write-off its entire investment.

SUMMARY OF QUARTERLY RESULTS

(unaudited)

The table below summarizes the Company's results of operations by quarter for fiscal 1994 and 1993. The first quarter of each fiscal year contains sixteen weeks while the other quarters each contain twelve weeks.

(Dollars in thousands, except per share figures)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
1994					
Sales	$3,225,359	$2,390,914	$2,345,597	$2,370,080	$10,331,950
Gross margin	912,644	680,911	670,572	679,328	2,943,455
Income (loss) from operations	31,778	25,868	(144,568)	29,392	(57,530)
Income (loss) before cumulative effect of accounting change	7,245	6,057	(185,665)	5,777	(166,586)
Cumulative effect on prior years of change in accounting principle:					
Postemployment benefits	(4,950)	—	—	—	(4,950)
Net income (loss)	2,295	6,057	(185,665)	5,777	(171,536)
Per share data:					
Income (loss) before cumulative effect of accounting change	.19	.16	(4.86)	.15	(4.36)
Cumulative effect on prior years of change in accounting principle:					
Postemployment benefits	(.13)	—	—	—	(.13)
Net income (loss)	.06	.16	(4.86)	.15	(4.49)
Cash dividends	.20	.20	.20	.05	.65
Market price:					
High	27.375	24.500	27.125	23.000	
Low	22.625	19.875	21.625	17.375	
Number of stores at end of period	1,152	1,123	1,111	1,108	
1993					
Sales	$3,279,264	$2,399,368	$2,342,935	$2,362,510	$10,384,077
Gross margin	941,154	690,493	665,579	661,273	2,958,499
Income (loss) from operations	48,005	23,778	13,386	(16,889)	68,280
Net income (loss)	17,050	5,957	379	(19,427)	3,959
Per share data:					
Net income (loss)	.45	.15	.01	(.51)	.10
Cash dividends	.20	.20	.20	.20	.80
Market price:					
High	35.000	34.000	30.000	29.000	
Low	23.125	27.875	24.875	23.750	
Number of stores at end of period	1,210	1,203	1,191	1,173	

Management's Report on Financial Statements

The management of The Great Atlantic & Pacific Tea Company, Inc. has prepared the consolidated financial statements and related financial data contained in this Annual Report. The financial statements were prepared in accordance with generally accepted accounting principles appropriate to our business and, by necessity and circumstance, include some amounts which were determined using management's best judgments and estimates with appropriate consideration to materiality. Management is responsible for the integrity and objectivity of the financial statements and other financial data included in this report. To meet this responsibility, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that accounting records are reliable. Management supports a program of internal audits and internal accounting control reviews to provide assurance that the system is operating effectively.

The Board of Directors pursues its responsibility for reported financial information through its Audit Review Committee. The Audit Review Committee meets periodically and, when appropriate, separately with management, internal auditors and the independent auditors, Deloitte & Touche LLP, to review each of their respective activities.

James Wood
Chairman of the Board
and Chief Executive Officer

Fred Corrado
Vice Chairman of the Board,
Chief Financial Officer and Treasurer

Independent Auditors' Report

To the Shareholders and Board of Directors of The Great Atlantic & Pacific Tea Company, Inc.:

We have audited the accompanying consolidated balance sheets of The Great Atlantic & Pacific Tea Company, Inc. and its subsidiary companies as of February 25, 1995 and February 26, 1994 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three fiscal years in the period ended February 25, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Great Atlantic & Pacific Tea Company, Inc. and its subsidiary companies at February 25, 1995 and February 26, 1994 and the results of their operations and their cash flows for each of the three fiscal years in the period ended February 25, 1995 in conformity with generally accepted accounting principles.

As discussed in Notes to Consolidated Financial Statements, in fiscal 1994 the Company changed its method of accounting for postemployment benefits to conform with Statement of Financial Accounting Standards ("SFAS") No. 112 and in fiscal 1992 the Company changed both its method of accounting for income taxes to conform with SFAS No. 109 and its method of accounting for postretirement benefits other than pensions to conform with SFAS No. 106.

Deloitte & Touche LLP

Parsippany, New Jersey
April 27, 1995

Five-Year Summary of Selected Financial Data

The Great Atlantic & Pacific Tea Company, Inc.

(Dollars in thousands, except per share figures)	Fiscal 1994 (52 weeks)	Fiscal 1993 (52 weeks)	Fiscal 1992 (52 weeks)	Fiscal 1991 (53 weeks)	Fiscal 1990 (52 weeks)
Operating Results					
Sales	$10,331,950	$10,384,077	$10,499,465	$11,590,991	$11,390,943
Income (loss) before cumulative effect of accounting changes	(166,586)	3,959	(98,501)	70,664	150,954
Cumulative effect on prior years of changes in accounting principles:					
Postemployment benefits	(4,950)	—	—	—	—
Income taxes	—	—	(64,500)	—	—
Postretirement benefits	—	—	(26,500)	—	—
Net income (loss)	(171,536)	3,959	(189,501)	70,664	150,954
Per Share Data					
Income (loss) before cumulative effect of accounting changes	(4.36)	.10	(2.58)	1.85	3.95
Cumulative effect on prior years of changes in accounting principles:					
Postemployment benefits	(.13)	—	—	—	—
Income taxes	—	—	(1.69)	—	—
Postretirement benefits	—	—	(.69)	—	—
Net income (loss)	(4.49)	.10	(4.96)	1.85	3.95
Cash dividends	.65	.80	.80	.80	.775
Book value per share	20.27	26.02	27.06	32.79	31.96
Financial Position					
Current assets	1,193,731	1,230,339	1,221,492	1,255,908	1,319,894
Current liabilities	1,096,454	1,151,132	1,164,723	1,082,042	1,203,643
Working capital	97,277	79,207	56,769	173,866	116,251
Current ratio	1.09	1.07	1.05	1.16	1.10
Total assets	2,894,788	3,098,695	3,090,930	3,293,267	3,415,045
Long-term debt	612,473	544,399	414,301	486,129	532,510
Capital lease obligations	146,400	162,866	182,066	206,003	220,892
Equity					
Shareholders' equity	774,914	994,417	1,034,330	1,253,106	1,221,270
Weighted average shares outstanding	38,220,000	38,220,000	38,219,000	38,211,000	38,206,000
Number of registered shareholders	10,867	11,831	12,309	12,871	14,210
Other					
Number of employees	92,000	94,000	90,000	94,600	99,300
Number of stores at year end	1,108	1,173	1,193	1,238	1,275
Total store area (square feet)	36,441,000	37,908,000	37,741,000	38,742,000	39,353,000

Corporate Officers

James Wood
Chairman of the Board and Chief Executive Officer

Christian W.E. Haub
President and Chief Operating Officer

Fred Corrado
Vice Chairman of the Board, Chief Financial Officer and Treasurer

Gerald L. Good
Executive Vice President, Marketing and Merchandising

Peter J. O'Gorman
Executive Vice President, Development & Strategic Planning

George Graham
Senior Vice President, Chief Merchandising Officer

J. Wayne Harris
Senior Vice President, Chief Operating Officer, U.S. Operations

Clifford J. Horler
Senior Vice President, Development

H. Nelson Lewis
Senior Vice President, Human Resources

Michael J. Rourke
Senior Vice President, Communications and Corporate Affairs

Ivan K. Szathmary
Senior Vice President, Chief Services Officer

Robert G. Ulrich
Senior Vice President, General Counsel

Patricia Asta
Vice President, Personnel

Peter R. Brooker
Vice President, Planning and Corporate Secretary

Stephen T. Brown
Vice President, Labor Relations

Timothy J. Courtney
Vice President, Taxation

Donald B. Dobson
Vice President, Southeast and Southern Operations

R. Paul Gallant
President, Compass Foods

Kenneth W. Green
Vice President, Produce Merchandising and Procurement

Robert A. Keenan
Vice President, Chief Internal Auditor

Peter R. Lavoy
Vice President, Grocery Merchandising and Procurement

Francis X. Leonard
Vice President, Real Estate Administration

Mary Ellen Offer
Vice President, Assistant Corporate Secretary and Senior Counsel

R. Donald O'Leary
Vice President, Marketing

Brian Pall
Vice President, Real Estate Development

Karl Petersen
Vice President, Retail Services

Peter E. Rolandelli
Vice President, Management Information Systems

Richard J. Scola
Vice President, Assistant General Counsel

J. Paul Stillwell
President, Supermarket Service Corp.

Craig C. Sturken
Group Vice President, Michigan Group

Kenneth A. Uhl
Vice President, Controller

William T. Wolverton
Vice President, Warehousing and Transportation

Canadian Subsidiary

John D. Moffat
The Great Atlantic & Pacific Company of Canada, Limited Chairman and Chief Executive Officer

Directors

James Wood (c)(d)(e)
Chairman of the Board and Chief Executive Officer

Rosemarie Baumeister (b)
Executive Vice President, Tengelmann Warenhandelsgesellschaft, Germany

Fred Corrado (c)(d)(e)
Vice Chairman of the Board, Chief Financial Officer and Treasurer

Christopher F. Edley (a)(b)(c)(e)
President Emeritus and former President and Chief Executive Officer of the United Negro College Fund, Inc.

Christian W.E. Haub (d)
President and Chief Operating Officer

Helga Haub (c)(d)

Barbara Barnes Hauptfuhrer (a)(c)(d)(e)
Director of various corporations

Paul C. Nagel, Jr. (a)(c)(d)
Director of various corporations

Eckart C. Siess (e)
Former Vice Chairman of the Board

Fritz Teelen (d)
President, Plus Subsidiary Tengelmann Warenhandelsgesellschaft, Germany

Henry W. Van Baalen (d)
Business Consultant

R.L. "Sam" Wetzel (a)(b)(d)(e)
President and Chief Executive Officer of Wetzel International, Inc.

(a) Member of Audit Review Committee,
Paul C. Nagel, Jr., Chairman

(b) Member of Compensation Policy Committee,
Christopher F. Edley, Chairman

(c) Member of Executive Committee,
James Wood, Chairman

(d) Member of Finance Committee
R.L. "Sam" Wetzel, Chairman

(e) Member of Retirement Benefits Committee,
Barbara Barnes Hauptfuhrer, Chairman

Shareholder Information

Executive Offices
Box 418
2 Paragon Drive
Montvale, NJ 07645
Telephone 201-573-9700

Transfer Agent and Registrar
American Stock Transfer and Trust Company
40 Wall Street
New York, NY 10005
Telephone 212-936-5100

Independent Auditors
Deloitte & Touche LLP
Two Hilton Court
Parsippany, NJ 07054

Shareholder Inquiries, Publications and Address Changes
Shareholders, security analysts, members of the media and others interested in further information about the Company are invited to contact the Corporate Affairs Department at the Executive Offices in Montvale, New Jersey.

Correspondence concerning address changes should be directed to:
American Stock Transfer and Trust Company
40 Wall Street
New York, NY 10005
Telephone 212-936-5100

Form 10-K
Copies of Form 10-K filed with the Securities and Exchange Commission will be provided to shareholders upon written request to the Secretary at the Executive Offices in Montvale, New Jersey.

Annual Meeting
The Annual meeting of Shareholders will be held at 10:00 a.m. on Tuesday, July 11, 1995 at the Ritz Carlton Hotel, 300 Town Center Drive, Dearborn, Michigan. Shareholders are cordially invited to attend.

Common Stock
Common stock of the Company is listed and traded on the New York Stock Exchange under the ticker symbol "GAP" and has unlisted trading privileges on the Boston, Midwest, Philadelphia, Cincinnati, and Pacific Stock Exchanges. The stock is reported in newspapers and periodical tables as "GtAtPc."

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